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THE UNDERWOOD TARIFF ACT AS A PRODUCER OF REVENUE

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The tariff policy of this government in the last thirty years has been, with one exception, a frank adherence to the protective policy. Its purpose has been to protect the industries of this country and to raise a revenue.

The economic developments which followed the year 1897 increased the dissatisfaction of the country with the high protective system, and while it would not be accurate to assign these developments exclusively to the tariff act, it was generally accepted that many of the more unfortunate features of our industrial life in that period were aggravated by the high tariff.

As a result of the reaction from these and other political forces there was put in power a party which prepared a tariff bill drawn on the theory of a competitive tariff. In presenting the bill to the House of Representatives, Mr. Underwood stated frankly that the rates were placed on a revenue basis, not on a protective one.

The success or failure of the lower tariff theory may not improperly be considered from the point of view of the revenue which it produced. I shall confine my observations, therefore, to the point of view of the Underwood bill as a producer of revenue, and shall make no attempt to consider the other aspects of the tariff situation.

The problem of presenting clearly the revenue returns from the tariff bill is not without its difficulties. Factors other than rates of duty enter into the equation. It is always difficult to estimate in advance the revenue which a given rate will produce.

The revenues under the same law with no change in rates vary from year to year. In some instances in the past there has been a change of more than \$40,000,000 in a single year. This happened in 1908. The revenues for the fiscal year 1907 were \$332,233,362 while for 1908 they were \$286,113,130, a drop of \$46,120,232, with no change of law. Again in 1911 the receipts from customs fell nearly \$20,000,000 below those for the previous year, with a further decline of over \$3,000,000 in 1912.

For the past five months business conditions have been so disturbed by the war in Europe that it is difficult to form an estimate of the effect on the revenues from customs and collections under the income tax provisions of the Underwood law.

It will be seen, however, from a study of the figures, that the Underwood bill had, up to the beginning of the war, produced all or more than the revenue expected of it at the time of its creation.

The Ways and Means committee in its report on the Underwood bill estimated the receipts from customs, for the fiscal year ending June 30, 1914, at \$270,000,000 and the receipts from the income tax at \$95,000,000, while the actual collections were, from customs \$292,128,527, the receipts from the income tax \$71,381,275, a total of \$363,701,289. The receipts from customs were more than \$22,000,000 in excess of the estimate, while the receipts from the income tax were about \$24,000,000 less.

That the receipts from the income tax were below the normal is due to the fact that many incomes are derived from interest and dividends payable on July 1 and January 1, and on such incomes the tax accrued for only four months of the year, from March 1 to July 1. The amounts of such interest and dividends payable on January 1, 1914, were not included in the returns for the fiscal year ending June 30, 1914, but will be included in the returns for the present fiscal year.

For the fiscal year ending June 30, 1915, it was estimated that the receipts from customs would be \$250,000,000. This reduction of \$20,000,000 in the estimated revenues is due to the fact that for three months of the fiscal year 1914 duties would be collected under the higher rates of the old law and that the provisions for free wool did not take effect until December 1, 1914, and the reduced rates on manufactures of wool and sugar until January 1 and March 1, respectively, 1914.

The receipts for the first six months of the fiscal year 1914 have been only a little in excess of \$107,500,000, indicating receipts of \$215,000,000 for the fiscal year or \$35,000,000 below the estimate of the committee. It must be remembered that such estimates were made at about the time of the passage of the tariff act and before any international complications were anticipated.

This falling off is undoubtedly due to the effect of the war in Europe on commerce generally, and particularly of imports from the

belligerent countries. The imports from these countries are chiefly manufactured articles subject to the higher rates of duty and the value of the imports from France, Germany, Austria, Hungary and Belgium has fallen off approximately \$70,000,000 as compared with the previous year.

The estimate of the treasury department indicates an expected falling off in revenues for the current financial year from customs of \$100,000,000 on account of the war,—an estimate which the receipts so far indicate to be not far from correct.

The receipts from customs, however, have maintained themselves at high figures when one takes into consideration the tremendous disturbance of the commerce of the world which war conditions have created.

The duties collected for the first six months for the fiscal year 1915 as compared with the preceding year are as follows:

	1915	1914	Loss
July.....	\$27,806,654.00	\$22,988,465.00	\$4,818,189.00
August.....	30,934,952.00	19,431,363.00	11,503,589.00
September.....	26,794,494.00	17,225,887.00	9,568,607.00
October.....	30,138,049.00	16,271,829.00	13,866,220.00
November.....	21,173,628.00	16,924,408.00	4,249,220.00
December.....	21,510,140.00	14,890,982.00	6,619,158.00
Total.....	\$158,357,917.00	\$107,732,934.00	\$50,624,983.00

The loss of \$50,624,983 for the last six months of the calendar year 1914 contrasts with a loss for the first half of that year of \$18,542,359.

It appears fairly certain that the income and corporation tax for the present fiscal year will reach \$80,000,000, receipts from customs \$215,000,000, which makes a total revenue under the Underwood law, notwithstanding the disturbed conditions due to the war, of \$295,000,000. A result which indicates that under normal conditions the Underwood bill will produce all the revenues expected of it.